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12 August 1949

MEMORANDUM FROM: DIRECTOR, CENTRAL INTELLIGENCE AGENCY

SUBJECT: Supply Situation of Chinese Communists

The Chinese Communists are confronted with certain serious economic difficulties, but these are not expected to retard significantly their military conquest of China and their elimination of open political opposition. The Communist present military superiority over the Nationalist armed forces is overwhelming, and furthermore the major campaigns of the war have already been fought and won by the Communists. The principal requirements of the Chinese Communists are enumerated below, with a brief discussion of Chinese Communist capabilities of satisfying these requirements.

Material Requirements

1. Small arms, ammunition, artillery: The present resources of the Chinese Communists in small arms, ammunition, and artillery are adequate to sustain their present advance against the Nationalist armies. The largest operable arsenal in the Far East (the Mukden Arsenal in Manchuria) is located in Communist territory. At full capacity, this arsenal could supply almost all the requirements of the Chinese Communists for small arms, ammunition, and artillery. Although the Mukden Arsenal is now operating at only partial capacity, the Chinese Communists are still able to draw supplies from large arsenals in other cities as well as from many very small arsenals scattered throughout their territory. In addition, the Chinese Communists have a large supply of United States equipment captured from the Nationalist armies. It is estimated that about 90 percent of the United States equipment supplied to Nationalist units in the field has fallen to the Communists.

2. Transportation, fuels, and lubricants: The requirements of the Communist armies for motor vehicles, and other forms of transportation, as well as for the fuels and lubricants needed to maintain their vehicles, will not seriously handicap their advance against the Nationalists. The Chinese Communist armies are marching armies; only a minimum of reliance has been placed on mechanical modes of transport. Communist forces which occupied Peiping were observed to have some USSR manufactured motor vehicles.

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3. Signal communication: Comparatively little is known about signal communication in the Chinese Communist armies beyond the fact that their radio nets are probably as adequate as those possessed by the Nationalists. Requirements in this field, however, would constitute a relatively minor part of the Communists' overall materiel requirements, and so would probably not preclude their continued advance against the Nationalists.

Other requirements

1. Food: Food requisitions from the surrounding countryside have been and will continue to be the method followed for feeding the Chinese Communist armies. Shortages of mechanical transportation available to the Communist armies south of the Yangtze River requires local requisitioning of food. Military operations for 1949 should not be impeded by lack of food, although the admittedly poor crop outlook may reduce the effectiveness of Communist propaganda directed at the civilian population. The reduced 1949 crop will probably result in famines in the spring of 1950 and encourage the Communists to seek an expansion of food imports.

2. Fuel: China is almost entirely dependent on imports to meet its oil requirements. For the present, the Nationalist blockade has effectively reduced oil shipments to the Chinese Communists, although some Soviet gasoline has been reported moving into North China through Manchuria. Much of China's oil requirements can be met by conversion of facilities to coal. Transportation bottlenecks and Nationalist air harassment of shipping and rail lines, however, have effectively reduced the availability of this fuel to the Chinese economy. The coal shortage has contributed to depression and widespread unemployment in Shanghai and other cities occupied by the Communists. Communist success in propagandizing the urban proletariat will depend on large part on their successes attained in solving this unemployment problem in the cities.

3. Cotton: China's most important industry - textile mills - will depend on imports of cotton next year (possibly 2 million bales) if it is to operate at normal capacity. The Nationalist blockade and Communist shortage of foreign exchange, however, will necessarily cut down on imports and force operations at less than normal capacity. The Communists are now attempting to meet the resultant unemployment problem by forcing the dispersal of the unemployed to other centers. Communist success in consolidating their political position will depend in good part on how well the unemployment problem is solved.

4. Paper: There has been considerable Communist demand for currency paper but little for newsprint or other cheaper paper, which can be produced in China. It is not expected that the propaganda program of the Communists will be seriously impaired by paper shortages.

The unpleasant but unescapable conclusion remains, therefore, that the Communists will be able to sustain their military momentum until they control all of mainland China. The serious economic problems indicated above will handicap the Communists in carrying out their economic program and make difficult the consolidation of their control, but it is not expected that these problems will be sufficient to cause a change in overall Chinese Communist strategy.

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CC: Director

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Central Records

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AD/ORE

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Legislative Liaison Branch

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TRANSMITTAL SLIP		
8/17/49 DATE		
TO: Mr. Forgyheiner		
BUILDING	ROOM NO.	
REMARKS: <i>Not sent</i>		
FROM: DCT		
BUILDING	ROOM NO.	EXTENSION
FORM NO. 36-8 SEP 1946		